
Insurance Fraud Division

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The Insurance Fraud Division (IFD) is responsible for the investigation of each person suspected of engaging in insurance fraud and referring suspected cases of insurance fraud to appropriate authorities for criminal prosecution. The Division is directed to exercise its authority by seeking cooperation with the Department of State Police, Office of the Attorney General and the Offices of the State's Attorney in all 24 subdivisions within the State of Maryland. In addition, the Division operates a toll free insurance fraud hot line and conducts public outreach and awareness programs on the costs of insurance fraud to the public.

The Insurance Fraud Division is comprised of three investigative sections.

Criminal Investigation Section
AGIT Investigation Section
Executive Profile Investigation Section

CRIMINAL INVESTIGATION SECTION

The Criminal Investigation Section receives complaints from the insurance industry, private citizens, law enforcement agencies and other MIA Enforcement Units. Complaints are screened for investigative potential then investigators conduct detailed criminal investigations at times working closely with prosecutors to bring the case to trial.

AGIT INVESTIGATION SECTION

In support of its investigative efforts, the AGIT Investigation Team is comprised of insurance fraud investigators, state police criminal investigator(s) and investigative auditors working in close cooperation with three Assistant Attorney's General. The section primarily handles complex or multi-jurisdictional cases and those complaints with a potential high monetary loss. They also routinely review those complaints involving licensed entities, healthcare providers and other Enforcement Unit referrals. With the addition of a third Assistant Attorney General in 2001, the Division is in a position to more effectively evaluate and investigate the increasing number of complex complaints that it has been receiving.

EXECUTIVE PROFILE INVESTIGATION SECTION

The Executive Profile Investigation Section was formed in January, 2001 to assume the background investigation duties previously conducted by the Licensing Compliance and Investigative Unit of the Licensing Section. This section conducts background investigations on officers, directors and major stockholders of insurance companies in Maryland as well as individuals involved with entities seeking a certificate of authority to conduct insurance business in Maryland.

The IFD enjoys an excellent working relationship with the Department of State Police, Office of the Attorney General as well as prosecutors and investigators in each of the local subdivisions in Maryland. The Division continues to develop working relationships with the United States Attorney's Office, the United States Postal Inspection Service, the Federal Bureau of Investigation, National Insurance Crime Bureau and other Federal Law Enforcement agencies in the area. Regional development of cooperative investigation efforts are ongoing through the Mid Atlantic States Insurance Fraud Association and participation in the International Association of Certified Fraud Examiners (CFE) and the International Association of Special Investigation Units (IASIU).

Although the overall number of complaints to the Division fluctuates from year to year, the number of investigations closed with criminal charges per year has remained more than 100 for the past 5 years with 121 and 113 for FY 2000 and 2001 respectively. As prosecutors become more familiar with insurance fraud charges, the number of convictions has steadily increased as well.

From July 1995 through July 2001, Insurance Fraud investigations have resulted in the conviction of 380 individuals for insurance-related crimes

PROSECUTION HIGHLIGHTS – Fiscal 2000

State vs. Dorothy Hofstetter

Dorothy Hofstetter worked for Lincoln Financial Advisors for 17 years while working for BIST, a related company that performed insurance brokerage services from the same office. As office manager, she made deposits to BISI's account and wrote checks to pay BISI's expenses. In June 1998, discrepancies were discovered in the BISI account. A complaint was made to the IFD. The investigation revealed Hofstetter had deposited \$94,866.45 worth of BISI checks into her personal bank account and wrote \$58,198.70 worth of BISI checks to herself, her personal creditors or to cash. After a 10 month investigation by the AGIT Investigation Section, Hofstetter was charged, pled guilty in August 1999, and was sentenced to 5 years in prison with all but 18 months suspended. She was placed on three years probation and ordered to make an initial restitution payment of \$40,000 within 30 days with additional restitution of \$114,000 to be paid during the probationary period.

State vs. Timothy Scalla, Sr.

In May 2000, Timothy Andrew Scalla, Sr. was convicted in the Circuit Court of Baltimore County of theft and insurance fraud for making a series of fraudulent insurance claims against his homeowner's policies. The conviction followed Scalla's guilty plea to charges that over a two-year period, he falsely claimed that he was the victim of three separate break-ins. Each time, he submitted phony documents, including bogus invoices and cancelled checks, in support of insurance claims for property

allegedly stolen from him. Scalla admitted that he received a total of \$18,486.68 for fraudulent claims.

Judge Barbara Kerr Howe sentenced Scalla to 5 years incarceration, suspending all but 18 months. She also ordered him to make restitution in the amount of \$18,486.68 to the Travelers and Allstate.

State vs. Anthony Doyle

Anthony Doyle was employed as a temporary property claims adjuster by State Farm Insurance Company in their Frederick office. State Farm became suspicious when it was noted that a number of expensive electronic items were being delivered to the same Baltimore City address. An IFD investigation revealed that Doyle would order various merchandise unconnected to the claim he was handling and he would have these items delivered to his home, approving payment for them. Doyle was charged with Felony Insurance Fraud and Felony Theft.

He pled guilty to both counts in the Circuit Court of Frederick County and was sentenced to serve 5 years in the Division of Correction. This sentence was suspended and he was placed on 5 years supervised probation and ordered to make restitution to State Farm Insurance Company in the amount of \$10,800.

State vs. Kevin Maxwell

Kevin Maxwell presented a claim to his homeowners insurer, Nationwide Insurance Company, that a computer worth \$2,800 had been stolen from his car. Members of the Nationwide

Insurance Company Special Investigation forwarded to the IFD for investigation. During the investigation, Maxwell admitted that there had been no theft. He was charged with Felony Insurance Fraud in Baltimore County.

At the time of trial Maxwell decided to proceed on a "not guilty statement of facts". Judge Vicki Watts found the defendant guilty and, taking into consideration the defendant's clean record, sentenced him to 2 years incarceration. This sentence was suspended and he was placed on 2 years supervised probation, ordered to perform 104 hours of community service and fined \$500.

State vs. Thomas J. McVan & Anthony N. Lazzaro

Thomas McVan, an employee of Allstate Insurance Company, and Anthony Lazzaro, an employee of MBNA America Bank, were involved in a scheme to file fraudulent insurance claims with Allstate. Over a 6-year period, the two men filed claims with Allstate that resulted in payments to them in excess of \$200,000.

As the result of an IFD investigation McVan and Lazzaro were charged in a 13-count indictment with Felony Theft and Felony Insurance Fraud. Both McVan and Lazzaro pled guilty to an amended indictment that consolidated all theft counts into a single count that incorporated the entire time period in the indictment. Both defendants were sentenced to 7 years incarceration, with all but one year suspended, to be served in the Cecil County Detention Center and later in home confinement. Upon release from

jail both are to serve 5 years supervised probation. Restitution in the amount of \$206,814.90 was ordered.

PROSECUTION HIGHLIGHTS – FISCAL 2001

State vs. Stanley Page

After an extensive 36 month investigation conducted by the AGIT Investigation Section with lead investigator from the Department of State Police, Towson insurance agent Stanley Page was charged in a four count criminal information with a multitude of insurance fraud and related crimes. The charges related to the agents' improper diversion of premium funds totaling \$968,247.66 to business and other accounts for his own personal use. Page pled guilty in August, 2001 and was sentenced to 10 years in jail with all but one year suspended. He was ordered to continue making restitution begun before sentencing with a remaining balance of \$254,447.97.

State vs. T. Jesse Buhite

After receiving a complaint that agent T. Jesse Buhite was involved in fraudulent activities at the offices of Health Benefits Administrators, the IFD executed a search and seizure warrant at that office in September, 1998. More than 100 boxes of evidence were seized. During the review process, it was determined federal ERISA violations had been committed by Buhite. After a 24 month investigation, a 20 count federal indictment of the agent on

various violations totaling over \$300,000 in stolen funds. Buhite pled guilty in September, 2001 and was sentenced to two years under a conditional release order preceded by 6 months of home detention. He had made full restitution prior to his sentencing which included a 13 year federal ban from administering employee benefit plans.

State vs. Paul McMahon

A complaint was received that Nationwide appointed agent Paul McMahon was involved in fraudulent activities at his insurance agency involving surety bonds. McMahon was found to have issued two surety bonds under a bogus entity for two construction projects, one a Washington D.C. renovation project with surety bonds totaling \$1,232,000 and the other for a University of Maryland Student Union Building renovation with a \$979,540 surety bond. McMahon was charged in a 35 count criminal indictment of felony insurance fraud, forgery and conspiracy. In February, 2001, he pled guilty in Howard County Circuit Court and received a five year suspended jail sentence with 5 years of supervised probation. Full restitution was ordered and he had to complete a community service project of 200 hours.

STATISTICAL DATA – Fiscal Year 2000

Written/Electronic Complaints Received	1,147
Telephone Tips	264
Total # Complaints Received	1,411
Total Number Of Investigations Opened	412
Cases Referred To Area State's Attorney's for Prosecution	126
Charged	121
Prosecution declined	4
Pending	1
CONVICTIONS	63
Cases Referred To Division Attorney Generals	36
Referral Disposition	
Opened for investigation by AGIT	21
Returned to IFD for investigation	5
Returned to IFD/recommended closure	3
Investigation/Prosecution Results:	
Investigations closed by filing charges	8
Individuals charged	9
Investigation successfully prosecuted	8
Cases Referred To The Division State Police	29
Cases Closed with Charges Filed	4
Open Investigations	9

STATISTICAL DATA – Fiscal Year 2001

Written/Electronic Complaints Received	1,086
Telephone Tips	259
Total # Complaints Received	1,345
Total Number Of Investigations Opened	317
Cases Referred To Area State's Attorney's for Prosecution	126
Charged	113
Prosecution declined	13
Pending	10
CONVICTIONS	67
Cases Referred To Division Attorney Generals	30
Referral Disposition	
Opened for investigation by AGIT	21
Returned to IFD for investigation	5
Returned to IFD/recommended closure	12
Investigation/Prosecution Results:	
Investigations closed by filing charges	10
Individuals charged	11
Investigation successfully prosecuted	6
Cases Referred To The Division State Police	32
Cases Closed with Charges Filed	14
Open Investigations	10